



Umzimkhulu Municipality
Annual Financial Statements
for the year ended 30 June 2011

Umzimkhulu Municipality

Annual Financial Statements for the year ended 30 June 2011

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Responsibility of the Accounting Officer

I am responsible for the preparation of these annual financial statements, which are set out on pages 2 to 31 ,and in appendix A,B,C,D,E(1) and E(2) in terms of Section 126(1) of the Municipal Finance Management Act and which I have signed on behalf of the Municipality.

I certify that the salaries, allowances and benefits of Councilors as disclosed in note 18 of these annual financial statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

L.H. Mapholoba
Municipal Manager

Umzimkhulu Municipality

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Statement of Financial Position

		Note(s)	2011	2010
Assets				
Current Assets				
Trade and other receivables from exchange transactions	<u>31.20</u>	7	131,100	905,658
VAT receivable	<u>31.20</u>	8	1,859,306	3,983,904
Consumer debtors	<u>31.20</u>	9	7,032,546	6,921,314
Investments	<u>27.29</u>	6	32,969,804	27,995,437
Cash and cash equivalents	<u>32.20</u>	10	-	556,090
			41,992,756	40,362,403
Non-Current Assets				
Investment property	<u>21.20</u>	2	4,496,822	4,526,989
Property, plant and equipment	<u>20.20</u>	3	198,574,356	210,941,826
Intangible assets	<u>23.22</u>	4	195,108	325,057
Assets in construction	<u>27.27</u>	5	60,911,468	37,828,061
			264,177,754	253,621,933
Total Assets			306,170,510	293,984,336
Liabilities				
Current Liabilities				
Trade and other payables from exchange transactions	<u>51.20</u>	13	3,299,004	3,580,401
Unspent conditional grants and receipts	<u>43.20</u>	11	32,176,208	26,099,446
Bank overdraft	<u>32.20</u>	10	483,132	-
			35,958,344	29,679,847
Non-Current Liabilities				
Provisions	<u>52.20</u>	12	1,155,214	1,105,097
Total Liabilities			37,113,558	30,784,944
Net Assets			269,056,952	263,199,392
Net Assets				
Reserves				
Revaluation reserve	<u>40.22</u>		107,340,500	132,296,709
Accumulated surplus	<u>40.24</u>		161,716,452	130,902,683
Total Net Assets			269,056,952	263,199,392

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Statement of Financial Performance

	Note(s)	2011	2010
Revenue			
Property rates		7,438,448	9,411,609
Service charges		651,550	1,119,420
Rental of facilities and equipment		492,190	384,540
Interest received (trading)		425,436	566,031
Government grants & subsidies	14	99,377,334	102,062,089
Motor vehicle licences		488,270	314,731
Miscellaneous other revenue		560,478	517,499
Recoveries		2,640	-
Other income		-	94,605
Sundry income		-	1,000
Interest received - investment		1,903,486	2,542,914
Total Revenue		111,339,832	117,014,438
Expenditure			
Personnel	17	(22,377,976)	(19,313,843)
Remuneration of councillors	18	(8,394,413)	(7,545,288)
Administration		-	(68,362)
Depreciation and amortisation	19	(25,880,926)	(25,352,260)
Finance costs	20	(50,116)	(83,228)
Repairs and maintenance		(4,612,635)	(1,610,262)
General Expenses	15	(39,660,236)	(32,696,356)
Total Expenditure		(100,976,302)	(86,669,599)
Gain on disposal of assets and liabilities		-	40,557
Surplus for the year		10,363,530	30,385,396

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Statement of Changes in Net Assets

	Capitalisation reserve	Revaluation reserve	Accumulated surplus	Total net assets
Balance at 01 July 2009	-	-	98,139,274	98,139,274
Changes in net assets				
Revaluation of Property, plant and equipment	-	154,647,280	-	154,647,280
Other asset adjustments	-	-	(9,891,925)	(9,891,925)
Net income (losses) recognised directly in net assets	-	154,647,280	(9,891,925)	144,755,355
Surplus for the year	-	-	30,385,396	30,385,396
Total recognised income and expenses for the year	-	154,647,280	20,493,471	175,140,751
Expenditure recorded in incorrect period	-	-	(4,336,034)	(4,336,034)
Credit notes processed relating to prior period balances	-	-	(837,689)	(837,689)
Write off of accounts with no movement	-	-	(460,933)	(460,933)
Accrual adjustments	-	-	5,488	5,488
Amortisation on prior year intangible asset	-	-	(52,933)	(52,933)
Offsetting depreciation	-	(22,350,571)	22,350,571	-
Total changes	-	132,296,709	37,161,941	169,458,650
Opening balance as previously reported	-	132,296,709	130,488,424	262,785,133
Adjustments				
Sports facility grant fund spent	-	-	414,258	414,258
Balance at 01 July 2010 as restated	-	132,296,709	130,902,682	263,199,391
Changes in net assets				
Surplus for the year	-	-	10,363,530	10,363,530
Movable asset adjustments	-	-	(1,053,025)	(1,053,025)
WCA expenditure paid in current year relating to prior periods	-	-	(1,171,776)	(1,171,776)
Offsetting of depreciation	-	(24,956,210)	24,956,210	-
Council approval to write off debtors take-on balances	-	-	(2,194,956)	(2,194,956)
Portion of accrued bonus raised not paid out	-	-	16,740	16,740
Creditors adjustments	-	-	(234,494)	(234,494)
Clearing bank reconciliation variances	-	-	(234,142)	(234,142)
Councillors cellphone balances no longer owing	-	-	(96,654)	(96,654)
Accrual adjustments	-	-	133,640	133,640
Write off of accounts with no movement	-	-	328,697	328,697
Total changes	-	(24,956,210)	30,813,770	5,857,560
Balance at 30 June 2011	-	107,340,499	161,716,452	269,056,951

Note(s)

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Cash Flow Statement

	Note(s)	2011	2010
Cash flows from operating activities			
Receipts			
Sale of goods and services		108,824,904	97,768,383
Interest income		1,903,486	2,542,914
		110,728,390	100,311,297
Payments			
Suppliers		(69,253,357)	(92,115,865)
Finance costs		(50,116)	(83,228)
		(69,303,473)	(92,199,093)
Net cash flows from operating activities	21	41,424,917	8,112,204
Cash flows from investing activities			
Purchase of property, plant and equipment	3	(14,402,572)	(31,747,831)
Sale of property, plant and equipment	3	-	75,001
Purchase of other intangible assets	4	(3,793)	(54,116)
Purchase of assets in construction		(23,083,407)	-
PPE adjustments - Prior year		-	7,373,346
Purchase of investments		(4,974,367)	-
Movements in investments		-	13,944,281
Net cash flows from investing activities		(42,464,139)	(10,409,319)
Cash flows from financing activities			
Finance lease payments		-	(126,951)
Net increase/(decrease) in cash and cash equivalents		(1,039,222)	(2,424,066)
Cash and cash equivalents at the beginning of the year		556,090	2,980,156
Cash and cash equivalents at the end of the year	10	(483,132)	556,090

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Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the effective Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise. They are presented in South African Rand.

These accounting policies are consistent with the previous period.

1.1 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, and only when, it is probable that the future economic benefits that are associated with the investment property will flow to the municipality, and the cost of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Cost model

Investment property is carried at cost less any accumulated impairment losses.

Depreciation is provided to write down the cost, less estimated residual value over the useful life of the property, which is as follows:

Item	Useful life
Property - buildings	30 years

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

1.2 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Accounting Policies

1.2 Property, plant and equipment (continued)

Where an asset is acquired at no cost, or for a nominal cost, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

Property, plant and equipment is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited in revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Average useful life
Infrastructure	
• Roads and paving	30 years
• Pedestrian Malls	30 years
• Electricity	0-30 years
Community	
• Buildings	30 years
• Recreational facilities	20-30 years
• Security	5 years

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Accounting Policies

1.2 Property, plant and equipment (continued)

Other property, plant and equipment

• Buildings	30 years
• Specialist vehicles	10 years
• Other vehicles	5 years
• Office equipment	3-7 years
• Furniture and fittings	7-10 years

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. These assets are not accounted for as non-current assets held for sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

1.3 Intangible assets

An asset is identified as an intangible asset when it:

- is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, assets or liability; or
- arises from contractual rights or other legal rights, regardless whether those rights are transferable or separate from the municipality or from other rights and obligations.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity; and
- the cost of the asset can be measured reliably.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows. Amortisation is not provided for these property, plant and equipment. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed every period-end.

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Accounting Policies

1.3 Intangible assets (continued)

Reassessing the useful life of an intangible asset with a definite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Useful life
Computer software, other	3 - 5 years

Intangible assets are derecognised:

- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss is the difference between the net disposal proceeds, if any, and the carrying amount. It is recognised in surplus or deficit when the asset is derecognised.

1.4 Financial instruments

Trade and other receivables

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the deficit is recognised in the statement of financial performance within operating expenses. When a trade receivable is uncollected, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in the statement of financial performance.

Trade and other payables

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value.

Bank overdraft and borrowings

Borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the municipality's accounting policy for borrowing costs.

Other financial liabilities are measured initially at fair value and subsequently at amortised cost, using the effective interest rate method.

Financial assets at fair value through profit or loss

Investments are recognised and derecognised on a trade date basis where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned.

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Accounting Policies

1.4 Financial instruments (continued)

Investments are measured initially and subsequently at fair value, gains and losses arising from changes in fair value are included in surplus or deficit for the period.

1.5 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

Finance leases - lessor

The municipality recognises finance lease receivables on the statement of financial position.

Finance income is recognised based on a pattern reflecting a constant periodic rate of return on the municipality's net investment in the finance lease.

Finance leases – lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

The lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Operating leases - lessor

Operating lease income is recognised as an income on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease income.

Income for leases is disclosed under revenue in the statement of financial performance.

Operating leases – lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset. This liability is not discounted.

Any contingent rents are expensed in the period they are incurred.

1.6 Impairment of cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

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Accounting Policies

1.6 Impairment of cash-generating assets (continued)

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:

- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also test a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standard of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Reversal of impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

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Accounting Policies

1.6 Impairment of cash-generating assets (continued)

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

1.7 Employee benefits

Retirement benefits

Whilst employees and councillors are employed by the municipality, the municipality contributes to their medical aid and pension funds. On termination, resignation or retirement of employees and councillors the municipality no longer contributes to the medical aid and pension funds on their behalf and thus there are no post employment benefits.

1.8 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

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Accounting Policies

1.8 Provisions and contingencies (continued)

A constructive obligation to restructure arises only when an entity:

- has a detailed formal plan for the restructuring, identifying at least:
 - the activity/operating unit or part of a activity/operating unit concerned;
 - the principal locations affected;
 - the location, function, and approximate number of employees who will be compensated for services being terminated;
 - the expenditures that will be undertaken; and
 - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding agreement.

After their initial recognition contingent liabilities recognised in business combinations that are recognised separately are subsequently measured at the higher of:

- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 23.

1.9 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

Accounting Policies

1.9 Revenue from exchange transactions (continued)

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by surveys of work performed.

Interest, royalties and dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Royalties are recognised as they are earned in accordance with the substance of the relevant agreements.

Dividends, or their equivalents are recognised, in surplus or deficit, when the municipality's right to receive payment has been established.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

1.10 Revenue from non-exchange transactions

Non-exchange transactions are defined as transactions where the entity receives value from another entity without directly giving approximately equal value in exchange.

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Rates, including collection charges and penalties interest

Revenue from rates, including collection charges and penalty interest, is recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- there has been compliance with the relevant legal requirements.

Changes to property values during a reporting period are valued by a suitably qualified valuator and adjustments are made to rates revenue, based on a time proportion basis. Adjustments to rates revenue already recognised are processed or additional rates revenue is recognised.

1.11 Borrowing costs

It is inappropriate to capitalise borrowing costs when, and only when, there is clear evidence that it is difficult to link the borrowing requirements of an entity directly to the nature of the expenditure to be funded i.e. capital or current.

Borrowing costs are recognised as an expense in the period in which they are incurred.

Umzimkhulu Municipality

Annual Financial Statements for the year ended 30 June 2011

Accounting Policies

1.12 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.13 Unauthorised, Irregular, Fruitless and Wasteful Expenditure

All expenditure relating to unauthorised, irregular or fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

Unauthorized Expenditure

Unauthorized expenditure is expenditure that has not been budgeted for, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act no.56 of 2003). Unauthorized expenditure is accounted for as an expense in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

Irregular Expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), the Public Office Bearers Act (Act No.20 of 1998) or is in contravention of the Municipality's supply chain management policy. Irregular expenditure excludes unauthorized expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

Fruitless and Wasteful expenditure

Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. Fruitless and wasteful expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.14 Use of Estimates

The preparation of annual financial statements in conformity with Generally Recognised Accounting Practice requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the municipality's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the annual financial statements are disclosed in the relevant sections of the annual financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

1.15 Presentation of Currency

These annual financial statements are presented in South African Rand.

1.16 Offsetting

Assets, liabilities, revenue and expenses have not been offset except when offsetting is required or permitted by a Standard of GAMAP, GRAP or GAAP.

1.17 Internal Reserves

Government grant reserve

When items of property, plant and equipment are financed from government grants, a transfer is made from the accumulated surplus/deficit to the Government Grants Reserve equal to the Government Grant recorded as revenue in the Statement of Financial Performance in accordance with a directive issued by National Treasury. When such items of property, plant and equipment are depreciated, a transfer is made from the Government Grant Reserve to the accumulated surplus/deficit. The purpose of this policy is to promote community equity by ensuring that the future depreciation expenses that will be incurred over the useful lives of government grant funded items of property, plant and equipment are offset by transfers from this reserve to the accumulated surplus/deficit.

Umzimkhulu Municipality

Annual Financial Statements for the year ended 30 June 2011

Accounting Policies

1.17 Internal Reserves (continued)

The purpose of this policy is to promote community equity by ensuring that the future depreciation expenses that will be incurred over the useful lives of government grant funded items of property, plant and equipment are offset by transfers from this reserve to the accumulated surplus.

When an item of property, plant and equipment financed from government grants is disposed, the balance in the Government Grant Reserve relating to such item is transferred to the accumulated surplus/deficit.

This policy is applicable for the period ending 30 June 2008. This policy is not applicable in the current year in terms of new GRAP standards

Revaluation reserve

The surplus arising from the revaluation of property, plant and equipment is credited to a non-distributable reserve. The revaluation surplus is realised as revalued buildings are depreciated, through a transfer from the revaluation reserve to the accumulated surplus/deficit. On disposal, the net revaluation surplus is transferred to the accumulated surplus/deficit while gains or losses on disposal, based on revalued amounts, are credited or charged to the Statement of Financial Performance.

1.18 Investments

Financial instruments, which include listed government bonds, unlisted municipal bonds, fixed deposits and short term deposits invested in registered banks, are stated at cost.

Where investments have been impaired, the carrying value is adjusted by the impairment loss, which is recognized as an expense in the period that the impairment is identified.

On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to the Statement of Financial Performance.

1.19 Conditional Grants and receipts

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

1.20 Segmental information

Segmental information on property, plant and equipment, as well as income and expenditure, is set out in Appendices C and D, based on the International Government Financial Statistics classifications and the budget formats prescribed by National Treasury. The municipality operates solely in its area of jurisdiction as determined by the Demarcation Board.

Segment information is prepared in conformity with the accounting policies applied for preparing and presenting the financial statements.

1.21 Budget information

Municipalities are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipalities shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the annual financial statements.

1.22 Going concern assumption

These annual financial statements have been prepared on a going concern basis.

Umzimkhulu Municipality

Annual Financial Statements for the year ended 30 June 2011

Accounting Policies

1.23 Contributions

Contributions reflected in the statement of financial performance consist of contributions to the leave reserve fund, working capital reserve (provision for bad debts).

Leave provision is calculated on the number of compoundable leave days outstanding as at the Statement of financial position date, using the daily employment cost rate.

Umzimkhulu Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

	2011	2010
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2. Investment property

	2011			2010		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	4,919,152	(422,330)	4,496,822	4,919,152	(392,163)	4,526,989

Reconciliation of investment property - 2011

	Opening balance	Impairments	Total
Investment property	4,526,989	(30,167)	4,496,822

Reconciliation of investment property - 2010

	Opening balance	Impairments	Total
Investment property	4,557,155	(30,166)	4,526,989

Rental revenue earned	486,067	384,539
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Details of property

Erven 231 and 232 (Hotel and House)

Commencement: 1 December 1995

Duration : 16 Years

Termination date: 31 May 2012

Payments : Monthly in advance.

Erven 229 , 735 and 736

(Land - Shopping Complex)

Commencement: 19th June 1996

Duration : 50 Years

Termination date: 18th June 2046

Payments : Year one 8 % of net rentals

: Year two 9% of net rentals

: Remainder 10% of net rentals

Which together with the 2% payable to the Trust will not be less than R14,800.00 per year.

Umzimkhulu Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

	2011			2010		
3. Property, plant and equipment						
	2011			2010		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land and buildings	55,058,231	(3,534,255)	51,523,976	55,058,231	(1,713,450)	53,344,781
Infrastructure	179,822,828	(44,365,324)	135,457,504	167,009,275	(21,626,906)	145,382,369
Community	7,123,954	(793,975)	6,329,979	5,859,059	(396,987)	5,462,072
Other fixed assets	5,411,400	(3,096,327)	2,315,073	9,672,030	(5,867,249)	3,804,781
Heritage	2,947,824	-	2,947,824	2,947,823	-	2,947,823
Total	250,364,237	(51,789,881)	198,574,356	240,546,418	(29,604,592)	210,941,826

Umzimkhulu Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

Figures in Rand

3. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2011

	Opening balance	Additions	Other changes, movements	Depreciation	Total
Land and buildings	53,344,781	-	-	(1,820,805)	51,523,976
Infrastructure	145,382,369	12,813,553	-	(22,738,418)	135,457,504
Community	5,462,072	1,264,894	-	(396,987)	6,329,979
Other fixed assets	3,804,781	324,125	(1,053,024)	(760,809)	2,315,073
Heritage	2,947,824	-	-	-	2,947,824
	210,941,827	14,402,572	(1,053,024)	(25,717,019)	198,574,356

Reconciliation of property, plant and equipment - 2010

	Opening balance	Additions	Disposals	Revaluations	Depreciation	Total
Land and buildings	14,212,877	3,513,437	-	37,331,917	(1,713,450)	53,344,781
Infrastructure	26,387,177	27,567,037	-	113,055,061	(21,626,906)	145,382,369
Community	4,203,973	-	-	1,655,086	(396,987)	5,462,072
Other fixed assets	4,468,708	667,357	(34,444)	-	(1,296,840)	3,804,781
Heritage	342,605	-	-	2,605,218	-	2,947,823
	49,615,340	31,747,831	(34,444)	154,647,282	(25,034,183)	210,941,826

Revaluations

The effective date of the revaluations was 30 June 2009. Revaluations were performed by independent valuer, the Aurecon Group and they are not connected to the municipality.

The Infrastructure assets, Community assets and Land and Buildings have been valued at depreciated replacement cost

Umzimkhulu Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

	2011	2010
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4. Intangible assets

	2011			2010		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software, other	1,010,531	(815,423)	195,108	1,006,738	(681,681)	325,057

Reconciliation of intangible assets - 2011

	Opening balance	Additions	Amortisation	Total
Computer software, other	325,057	3,793	(133,742)	195,108

Reconciliation of intangible assets - 2010

	Opening balance	Additions	Amortisation	Total
Computer software, other	611,786	54,116	(340,845)	325,057

5. Assets in construction

WIP-NHLAMBAMASOKA CLUSTER	6,275,798	4,231,945
WIP-SKOONPLAAS ACCESS ROAD	14,710,394	12,628,408
WIP-BONDERAND ACC RD	4,194,840	3,002,584
W-I-P KWA NJUNGA ACC RD	1,582,766	1,250,804
W-I-P MNCWEBE ACC RD	-	1,916,021
W-I-P MPINDWENI SIKHULU ACC RD	-	2,772,034
W-I-P NEW MOUNTAIN ACC RD	1,509,303	141,390
W-I-P NEW VILLAGE ACC RD(NDAWA	-	294,750
W-I-P NGUNJIN TO DRIFONT AC RD	3,713,222	3,498,340
W-I-P NKOFENI ACC RD	2,298,625	1,654,689
W-I-P GCWENTSA ACC RD	-	2,129,286
W-I-P ANGUS FARM SPORTFIELD	4,877,305	2,072,275
WIP STREET LIGHTENING	-	1,264,895
WIP DEEPPDALE ACC RD	3,157,089	970,640
WIP-ESIKHEWINI RIVER CROSSING	54,622	-
W-I-P-SIBOMVINI ACC RD	377,601	-
WIP SLOVAS ACC RD	246,342	-
WIP NKAMPINI ACC RD	709,933	-
WIP MADUNA ACC RD	608,227	-
WIP LUKHANYENI ACC RD	1,860,859	-
WIP RIETVLEI SPORTFIELD PH 2	601,875	-
WIP MADAKENI SPORTFIELD	91,037	-
WIP NGWANQA COMM HALL	419,978	-
WIP NEIGHBOURHOOD GRANT	8,943,709	-
WIP-ELECTRICITY	4,677,946	-
	60,911,471	37,828,061

Umzimkhulu Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

	2011	2010
6. Investments		
FNB S/CALL-32 DAY-62132172355	5,813,074	205,003
FNB CLYESDALE-62044980466	11,921,443	12,463,171
FNB C/CHAMBER-62123938154	-	30,780
FNB EXT5&6-62023990907	1,537,168	1,538,840
FNB IBISI-62044979732	1,005,086	1,047,525
FNB MSIG-62127055045	46,710	7,397
FNB MAP/GRANT-62123938089	-	3,347
FNB MIG-62123938055	450,992	460,337
FNB P/CONSOLIDATE-62129237758	-	1,707
FNB REITVL/CLY-62123938104	681,589	706,789
FNB R/SIDE-PH1-62023990593	808,922	838,478
FNB R/SIDE-PH2-62062571239	4,110,473	4,289,210
FNB RURAL/DISASTER-62048701222	5,763,394	6,039,693
FNB SPORT/FACIL-62125140129	80,120	140,243
URBAN RENEWAL SPECIAL PROJECT	369,959	3,416
URBAN RENEWAL FLATS INVESTMENT	380,874	77,760
INVESTMENT DROU REL62195997899	-	141,740
	32,969,804	27,995,436
7. Trade and other receivables from exchange transactions		
Other receivables	490,815	588,349
Funds recoverable	123,872	85,581
Credit accounts	-	694,405
Provision for bad debts	(490,815)	(490,815)
Lease debtor	-	3,834
Staff debtor recoveries	7,228	24,304
	131,100	905,658
8. VAT receivable		
VAT	1,859,306	3,983,904
9. Consumer debtors		
Gross balances		
Rates and refuse	18,691,079	15,262,798
Less: Provision for bad debts		
Rates and refuse	(11,658,533)	(8,341,484)
Net balance		
Rates and refuse	7,032,546	6,921,314
Rates and refuse		
Current (0 -30 days)	671,375	1,099,972
31 - 60 days	658,556	1,131,176
61 - 90 days	617,256	1,091,618
91 - 120 days	601,279	1,112,621
121 - 365 days	16,142,613	10,827,411
	18,691,079	15,262,798

Umzimkhulu Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

	2011	2010
9. Consumer debtors (continued)		
Reconciliation of provision for impairment of consumer debtors		
Opening balance	(8,341,483)	(6,837,131)
Provision for impairment	(3,317,049)	(2,199,275)
Amounts written off as uncollectible	-	694,923
	(11,658,532)	(8,341,483)

10. Cash and cash equivalents

Cash and cash equivalents consist of:

Bank balances	-	556,090
Bank overdraft	(483,132)	-
	(483,132)	556,090
Current assets	-	556,090
Current liabilities	(483,132)	-
	(483,132)	556,090

The municipality's primary bank account is a public sector cheque account with First National Bank. The account is held at the Ixopo branch and the account number is 5255 573 0913

11. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts

FMG Fund	-	25,991
Pound Grant	1,000,000	-
Housing projects	25,656,222	25,656,222
Sports Facility Grant Fund	-	140,243
MIG Fund	3,027,259	-
MSIG Fund	59	-
DTLGA Council Chamber Grant	-	30,241
Project Consolidate	-	12,192
Neighbourhood Grant	1,402,614	-
Electrification Grant / Urban renewal special projects	1,090,054	-
Drought Relief	-	234,557
	32,176,208	26,099,446

These amounts are invested in a ring-fenced investment until utilised.

Umzimkhulu Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

	2011	2010
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12. Provisions

Reconciliation of provisions - 2011

	Opening Balance	Interest	Total
Landfill site provision	1,105,097	50,117	1,155,214

Reconciliation of provisions - 2010

	Opening Balance	Interest	Total
Landfill site provision	1,033,767	71,330	1,105,097

The landfill site provision relates to the costs of rehabilitating the landfill site when it reaches the end of its useful life in 2013 and has been discounted to reflect its present value.

13. Trade and other payables from exchange transactions

Payments received in advanced	144,845	30,566
UIF accrued expense	409,424	337,551
Accrued leave pay	548,636	1,645,916
Accrued bonus	-	116,424
Accrued expenses	2,276,127	1,141,275
Deposits received	(80,028)	308,669
	3,299,004	3,580,401

Umzimkhulu Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

	2011	2010
14. Government grants and subsidies		
Equitable share	59,410,625	56,712,812
Government grant - operating revenue	2,518,595	5,168,685
Government grant - capital revenue	37,448,114	40,180,592
	99,377,334	102,062,089
Equitable Share		
In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members		
FMG fund		
Balance unspent at beginning of year	25,991	-
Current year receipts	1,200,000	750,000
Conditions met - transferred to revenue	(1,225,991)	(724,009)
	-	25,991
Sport Facility Grant Fund (Capital)		
Balance unspent at beginning of year	140,243	236,642
Current year receipts	-	1,288,500
Conditions met - transferred to revenue	(140,243)	(970,641)
Conditions met - transferred to accumulated surplus	-	(414,258)
	-	140,243
MIG Fund (Capital)		
Balance unspent at beginning of year	-	2,234,561
Current-year receipts	26,795,000	21,157,000
Conditions met - transferred to revenue	(23,767,741)	(23,391,561)
	3,027,259	-
MSIG Fund		
Balance unspent at beginning of year	-	138,309
Current-year receipts	800,000	800,000
Conditions met - transferred to revenue	(799,941)	(938,309)
	59	-
DTLGA Council Chamber Grant		
Balance unspent at beginning of year	30,241	30,241
Conditions met - transferred to revenue	(30,241)	-
	-	30,241

Umzimkhulu Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

	2011	2010
14. Government grants and subsidies (continued)		
MAP Grant		
Balance unspent at beginning of year	-	3,295,799
Conditions met - transferred to revenue	-	(3,295,799)
	-	-
Project Consolidate		
Balance unspent at beginning of year	12,192	102,134
Conditions met - transferred to revenue	(12,192)	(89,942)
	-	12,192
Neighbourhood Grant		
Current year receipts	10,000,000	-
Conditions met - transferred to revenue	(8,597,386)	-
	1,402,614	-
Electrification Grant / Urban Renewal - Special Projects (Capital)		
Balance unspent at beginning of year	-	6,286,045
Current-year receipts	5,768,000	3,132,500
Conditions met - transferred to revenue	(4,677,946)	(9,418,545)
	1,090,054	-
Urban Renewal - Flats (Capital)		
Balance unspent at beginning of year	-	2,126,995
Funds received	-	3,132,500
Conditions met - transferred to revenue	-	(5,259,495)
	-	-
Drought Relief (Capital)		
Balance unspent at the beginning of the year	234,556	1,374,907
Conditions met transferred to revenue	(234,556)	(1,140,351)
	-	234,556
Pound Grant		
Current year receipts	1,000,000	-

Umzimkhulu Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

	2011	2010
15. General expenses		
Administration cost	1,650,000	-
Advertising	367,025	368,510
Bank charges	44,288	48,384
Cleaning	488,198	578,529
Consulting and professional fees	7,335,903	6,929,621
Contributions	2,600,367	3,121,179
Delivery expenses	-	3,000
Entertainment	1,769,797	1,285,156
Fire brigade	1,336,544	-
Fuel and oil	345,083	222,896
General expenses	9,856,071	9,444,124
Grant expenditure	1,346,124	1,211,418
Hired facilities	1,077,582	552,414
IT expenses	1,829,723	894,566
Insurance	257,749	306,856
Lease rentals on operating lease	1,113,990	1,006,050
Levies	277,901	266,241
Motor vehicle expenses	321,747	244,011
Office equipment	169,784	173,188
Printing and stationery	1,175,106	580,752
Promotions and sponsorships	170,168	319,846
Security (Guarding of municipal property)	2,373,270	2,242,141
Staff welfare	363,594	-
Subscriptions and membership fees	214,169	276,756
Telephone and fax	1,209,451	1,581,965
Training	620,242	537,959
Transport and freight	596,504	345,315
Uniforms	16,449	155,479
Workmens compensation	733,407	-
	39,660,236	32,696,356

Included in contributions is a contribution to the bad debts provision and the leave provision.

16. Operating surplus

Operating surplus for the year is stated after accounting for the following:

Operating lease charges

Motor vehicles		
• Contractual amounts	806,926	756,325
Equipment		
• Contractual amounts	307,064	249,725
	1,113,990	1,006,050

Gain on sale of property, plant and equipment	-	40,557
Amortisation on intangible assets	133,742	287,911
Depreciation on property, plant and equipment	25,717,018	25,034,183
Depreciation on investment property	30,166	30,166
Employee costs	30,772,389	26,859,131

Umzimkhulu Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

	2011	2010
17. Employee related costs		
Basic	17,357,616	15,648,249
Bonus	714,606	86,889
Medical aid - company contributions	681,498	570,673
UIF	158,169	120,222
Other short term costs	4,854	3,988
Pension fund - company contributions	1,650,427	1,346,462
Travel and telephone allowances	1,065,773	853,433
Overtime payments	8,984	-
Acting allowances	57,844	74,200
Housing benefits and allowances	678,205	609,727
	22,377,976	19,313,843
Remuneration of Municipal Manager		
Annual Remuneration	513,377	477,427
Travel Allowance	213,907	198,928
Performance Bonuses	-	73,426
Contributions to UIF, Medical and Pension Funds	102,675	92,698
Housing Allowance	25,669	23,871
Cellphone	18,000	18,000
Backpay	13,258	20,145
	886,886	904,495
Remuneration of Chief Finance Officer		
Annual Remuneration	380,035	353,422
Travel Allowance	158,348	147,259
Performance Bonuses	-	54,355
Contributions to UIF, Medical and Pension Funds	63,339	58,811
Housing Allowance	31,669	29,359
Cellphone	12,000	12,000
Backpay	9,814	14,913
	655,205	670,119
Remuneration of Corporate Services Manager		
Annual Remuneration	309,694	346,682
Travel Allowance	129,039	144,451
Performance Bonuses	-	53,319
Contributions to UIF, Medical and Pension Funds	51,616	57,780
Housing Allowance	25,808	28,890
Cellphone	10,000	12,000
Backpay	9,627	12,628
Leave payout	109,184	-
	644,968	655,750

Umzimkhulu Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

	2011	2010
17. Employee related costs (continued)		
Remuneration of Social Services Manager		
Annual Remuneration	372,788	346,682
Travel Allowance	155,328	144,451
Performance Bonuses	-	53,318
Contributions to UIF, Medical and Pension Funds	55,918	52,002
Housing Allowance	37,279	34,668
Cellphone	12,000	12,000
Backpay	9,627	14,628
	642,940	657,749
Remuneration of Planning and Development Manager		
Annual Remuneration	363,078	346,682
Travel Allowance	151,282	144,451
Performance Bonuses	-	47,395
Contributions to UIF, Medical and Pension Funds	60,513	57,780
Housing Allowance	30,256	28,890
Cellphone Allowance	12,000	12,000
Backpay	9,627	14,628
Leave payout	97,053	-
	723,809	651,826
Remuneration of Technical Services Manager		
Annual Remuneration	380,035	269,540
Travel Allowance	158,348	112,308
Contributions to UIF, Medical and Pension Funds	63,339	44,900
Cellphone Allowance	12,000	7,000
Backpay	9,814	-
Housing	31,669	22,438
	655,205	456,186
18. Remuneration of councillors		
Mayor	538,227	489,021
Deputy Mayor	430,581	391,217
Executive Committee	1,460,646	1,353,766
Speaker	413,098	391,217
Councillors	5,092,708	4,215,750
Councillor UIF	71,873	337,551
Chief Whip	387,280	366,766
	8,394,413	7,545,288
19. Depreciation and amortisation		
Property, plant and equipment	25,717,018	25,034,183
Investment property	30,166	30,166
Intangible assets	133,742	287,911
	25,880,926	25,352,260

Umzimkhulu Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

	2011	2010
20. Finance costs		
Current borrowings	50,116	83,228
21. Cash generated from operations		
Surplus	10,363,530	30,385,396
Adjustments for:		
Depreciation and amortisation	25,880,926	25,352,260
Loss on sale of assets and liabilities	-	(40,557)
Depreciation on deferred charges	50,117	71,330
Adjustments to Accumulated surplus	(3,452,943)	(5,629,168)
Other movements in assets	-	(14,704,717)
Changes in working capital:		
Trade and other receivables from exchange transactions	774,556	321,263
Consumer debtors	(111,232)	(5,231,017)
Trade and other payables from exchange transactions	(281,397)	(5,257,104)
Vat	2,124,598	(2,231,151)
Unspent conditional grants and receipts	6,076,762	(14,924,331)
	41,424,917	8,112,204
22. Commitments		
Authorised capital expenditure		
Commitments in respect of capital expenditure - approved and contracted for:		
• Infrastructure	54,688,000	48,766,000

23. Contingencies

Estimated financial exposure related to litigation and claims amounts to the value of R 820 000.

Umzimkhulu Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

	2011	2010
24. Unauthorised, irregular, fruitless and wasteful expenditure		
Irregular expenditure		
Advances to employees	-	253,267
Service provider - Supply chain procedures	-	2,831,112
Transacting with company in which municipal employee has an interest	-	1,400
	-	3,085,779

During the previous year under review the municipality contravened Section 164 paragraph (1) (c) of the MFMA by paying advances to councillors and officials of the municipality. These amounts were recoverable and were condoned by council. All amounts have been paid back as at the 30 June 2010 except for an amount of R12 000. These advances were paid in good faith and did not affect the operations of the municipality

Expenditure of R 2 831 112 is made up as follows R 2 356 712 is relating to supply chain procedures which where not complied with, during the evaluation adjudication process, this was due to the fact that the service provider that was awarded the highest points had already been awarded another project within the municipality and thus it was just a fair distribution of resources and R 474 400 is relating to the extension of work which was reported to the finance committee but not reported to council.

During the financial year the municipality transacted with a company of which an employee of the municipality had an interest in, to the value of R 1 400.

Fruitless and Wasteful expenditure

Eskom - interest on late payments	-	549
Theft of funds not recoverable	-	562,800
	-	563,349

The municipality instituted legal action against a municipal employee for the theft of funds approximating R 562 800. The case has now been resolved and this amount will no longer be recoverable by the municipality.

25. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Current year subscription / fee	192,231	271,483
Amount paid - current year	-	(271,483)
	192,231	-

Audit fees

Current year amount	1,385,044	1,050,088
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PAYE and UIF

Opening balance	(10,568)	(10,568)
Current year amount	4,795,388	3,721,957
Amount paid - current year	(4,795,388)	(3,721,957)
Amount cleared	10,568	-
	-	(10,568)

Umzimkhulu Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

	2011	2010
25. Additional disclosure in terms of Municipal Finance Management Act (continued)		
Pension and Medical Aid Deductions		
Current year amount	5,611,375	2,928,985
Amount paid - current year	(5,611,375)	(2,928,985)
	-	-

VAT

VAT receivable	1,859,306	3,983,904
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Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2011:-

30 June 2011	Outstanding less than 90 days	Outstanding more than 90 days	Total
JS Mzizi	777	54	831
F Nene	493	5,524	6,017
	1,270	5,578	6,848

26. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the council and includes a note to the annual financial statements.

An amount totalling R 691 159 was procured during the previous financial year under review and the process followed in procuring those goods deviated from Paragraph 36 as stated above. The reasons for these deviations were documented and reported to the council who considered them and subsequently approved the deviation from the normal supply chain management regulations.

Appendix A

Umzimkhulu Municipality: Schedule of External Loans as at 30 June 2011

	Balance at 30 June 2010	Redeemed during the period	Balance at 30 June 2011	Carrying value of Asset at 30 June 2011
	R	R	R	R
LEASE LIABILITY				
	0	0	0	0
TOTAL EXTERNAL LOANS	0	0	0	0

APPENDIX B

UMZIMKHULU MUNICIPALITY: ANALYSIS OF PROPERTY PLANT AND EQUIPMENT AS AT 30 JUNE 2011

	COST				ACCUMULATED DEPRECIATION					
	<u>Opening Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Other changes</u>	<u>Closing Balance 2011</u>	<u>Opening Balance</u>	<u>Depreciation</u>	<u>Disposals</u>	<u>Closing Balance 2011</u>	<u>Carrying Value</u>
	R	R			R	R	R		R	
Infrastructure					0				0	0
									0	0
Roads	148,431,718	12,813,553			161,245,271	20,903,704	22,015,216		42,918,920	118,326,351
Stormwater	14,994,083				14,994,083	635,798	635,798		1,271,596	13,722,487
Bridges	3,583,473				3,583,473	87,404	87,404		174,808	3,408,665
									0	0
									0	0
Community Assets					0				0	0
Parks and Sportsgrounds	5,859,059	1,264,894			7,123,953	396,987	396,987		793,974	6,329,979
									0	0
									0	0
Land & Buildings					0				0	0
Land	611,000				611,000	0	0		0	611,000
Buildings	46,542,824				46,542,824	1,030,650	1,138,005		2,168,655	44,374,169
Taxi Ranks	7,904,407				7,904,407	682,800	682,800		1,365,600	6,538,807
									0	
Other assets	9,672,030	333,877	-4,584,755		5,421,152	5,867,249	760,809	-3,531,731	3,096,327	2,324,825
									0	0
Heritage asset	2,947,824				2,947,824		0		0	2,947,824
										0
Total	240,546,418	14,412,324	-4,584,755	0	250,373,987	29,604,592	25,717,018	-3,531,731	51,789,879	198,584,107

APPENDIX C

UMZIMKHULU MUNICIPALITY: SEGMENTAL ANALYSIS OF PROPERTY, PLANT AND EQUIPMENT AS AT 30 JUNE 2011

	Cost					Accumulated Depreciation				Carrying value
	Opening balance	Additions	Disposals	Other changes	Closing balance	Opening balance	Depreciation	Disposals	Closing balance	
	R	R	R		R	R	R	R	R	R
Executive and Council	58,006,055				58,006,055	1,713,450	1,820,805		3,534,255	54,471,800
Finance & Admin	9,672,030	333,877	-4,584,755		5,421,152	5,867,249	760,809	-3,531,731	3,096,327	2,324,825
Planning & Development	167,009,274	12,813,553			179,822,827	21,626,906	22,738,418		44,365,324	135,457,503
Community and social services	5,859,059	1,264,894			7,123,953	396,987	396,987		793,974	6,329,979
Total	240,546,418	14,412,324	-4,584,755		250,373,987	29,604,592	25,717,019	0	51,789,880	198,584,107

APPENDIX D

UMZIMKHULU MUNICIPALITY: SEGMENTAL INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2011

2010 Actual Revenue R	2010 Actual Expenses R	2010 Surplus/ (Deficit) R		2011 Actual Revenue R	2011 Actual Expenses R	2011 Surplus/ (Deficit) R
40,557	17,254,370	-17,213,813	COUNCIL AND MUNICIPAL MANAGER	2,641	18,727,129	-18,724,488
74,757,199	24,508,051	50,249,148	FINANCE AND ADMINISTRATION	71,427,336	27,859,233	43,568,104
40,630,281	38,902,445	1,727,835	PLANNING & INFRASTRUCTURE	38,738,275	44,321,674	-5,583,399
1,626,958	6,004,733	-4,377,775	COMMUNITY AND SOCIAL SERVICES	1,171,580	10,068,266	-8,896,686
117,054,995	86,669,599	30,385,395	TOTAL	111,339,832	100,976,302	10,363,530

APPENDIX E(1)

UMZIMKHULU MUNICIPALITY: ACTUAL VERSUS BUDGET FOR THE YEAR ENDED 30 JUNE 2011

	2011 Budget (R)	2011 Actual (R)	2011 Variance (R)	2011 Variance (%)
REVENUE				
PROPERTY RATES	6,000,000	7,438,448	(1,438,448)	-24%
SERVICE CHARGES	100,000	651,550	(551,550)	-552%
RENTAL INCOME	700,000	492,190	207,810	30%
LICENCES AND PERMITS	200,000	220,672	(20,672)	-10%
GOVERNMENT GRANTS	112,296,027	99,377,334	12,918,693	12%
MOTOR VEHICLE LICENCES	200,000	267,598	(67,598)	-34%
OTHER INCOME	12,070,000	563,118	11,506,882	95%
INTEREST ON INVESTMENTS	2,300,000	2,328,922	(28,922)	-1%
Total Revenue	133,866,027	111,339,832	22,526,195	17%

	2011 Budget (R)	2011 Actual (R)	2011 Variance (R)	2011 Variance (%)
EXPENSES				
PERSONNEL COSTS	31,694,884	30,772,390	922,494	3%
DEPRECIATION	545,143	25,880,926	(25,335,783)	-4648%
BAD DEBTS			-	0%
REPAIRS AND MAINTENANCE	6,432,404	4,612,635	1,819,769	28%
GENERAL EXPENDITURE	47,927,596	39,710,351	8,217,245	17%

TOTAL EXPENSES	86,600,027	100,976,302	(14,376,275)	-16%
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NET SURPLUS /(DEFICIT) FOR THE YEAR	47,266,000	10,363,530
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APPENDIX E(2)

UMZIMKHULU MUNICIPALITY: ACTUAL VERSUS BUDGET (ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT) FOR THE YEAR ENDED 30 JUNE 2011

	2011	2011	2011	2011	
	Actual	Total Additions	Budget	Variance	%
		R	R	R	
Executive Council		-	3,980	-3,980	-100%
Finance & Admin	324,125	324,125	321,602	2,523	1%
Planning & Development	12,813,553	12,813,553	47,289,205	-34,475,652	-73%
Community & Social Services	1,264,894	1,264,894	172,077	1,092,817	635%
Total	14,402,572	14,402,572	47,786,863	-33,384,291	-70%